

Message Text

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ACTION EUR-12

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FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 6177
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
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DEPARTMENT PASS FEDERAL RESERVE BOARD: LABOR

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: HEALEY URGES WAGE MODERATION

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SUMMARY: AFTER TWO YEARS OF RIGID INCOMES POLICY, THE
CHANCELLOR OF THE EXCHEQUER SAID THAT IT WAS NO LONGER
POSSIBLE TO HAVE UNIFORM PAY NORMS. LOWER INFLATION
AND AN ORDERLY RETURN TO NORMAL COLLECTIVE BARGAINING
WERE THE CENTRAL THEMES OF A 20-MINUTE MINI-BUDGET PRE-
SENTED TO THE COMMONS BY MR. HEALEY. HE STRESSED THE
NEED FOR WAGE SETTLEMENTS WELL WITHIN SINGLE DIGITS IN

THE COMING YEAR. TO HELP ACHIEVE THESE HE ANNOUNCED TAX CUTS AND SPENDING INCREASES DESIGNED TO EASE THE PRESSURE ON REAL INCOMES. THE TAX CHANGES ADD LITTLE BEYOND THOSE ANNOUNCED IN THE MARCH BUDGET AND THE EXPENDITURE INCREASES WILL COME FROM THE EXISTING CONTINGENCY RESERVES. END SUMMARY

1. THE CHANCELLOR BEGAN BY PRAISING THE TRADE UNIONS FOR SUPPORTING TWO YEARS OF WAGE RESTRAINT. HE NOTED THAT HMG AND THE TUC HAD ACCEPTED THAT THERE MUST BE AN ORDERLY RETURN TO COLLECTIVE BARGAINING. CITING THE JUNE 22 TUC VOTE TO MAINTAIN A 12-MONTH GAP BETWEEN WAGE SETTLEMENTS MADE UNDER PHASE II AND THOSE IN THE COMING WAGE ROUND' THE CHANCELLOR SAID THAT THIS WOULD "FACILITATE A PHASED RETURN TO NORMAL COLLECTIVE BARGAINING."

2. MR. HEALEY ADMITTED THAT "THE TUC DO NOT THINK IT PRACTICABLE FOR THEM TO GIVE GENERAL GUIDANCE ON THE LEVEL OF PAY SETTLEMENTS IN THE NEXT ROUND." HOWEVER, HE FELT THE RESPONSIBILITY TO SET OUT HMG'S VIEWS ON WAGES AND EARNINGS AFTER THE END OF PHASE II.

3. HE DESCRIBED THREE SCENARIOS BASED ON AVERAGE EARNINGS RISES OF 10, 15 AND 20 PERCENT OVER THE COMING YEARS. THE FIRST WOULD REDUCE INFLATION TO SINGLE DIGITS BY NEXT SPRING AND KEEP IT THERE; THE SECOND WOULD PRODUCE PRICE LIMITED OFFICIAL USE

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INCREASES ABOVE SINGLE DIGITS THROUGH 1978; WHILE THE THIRD WOULD RETURN BRITAIN TO THE SITUATION OF JULY 1975 WHEN PRICES WERE RISING AT ANNUAL RATES IN EXCESS OF 25 PERCENT. WITH THESE ALTERNATIVES IN MIND, THE CHANCELLOR STATED THAT HMG "HAS A CLEAR DUTY TO URGE ALL CONCERNED TO BASE THEIR APPROACH TO PAY NEGOTIATIONS ON GETTING INFLATION INTO SINGLE FIGURES." WHILE RECOGNIZING THAT THERE CAN BE NO STIPULATED SINGLE FIGURE AT WHICH INDIVIDUAL SETTLEMENTS SHOULD INVARIABLY SETTLE, HEALEY SAID THAT HMG "MUST SEEK TO ENSURE THAT THE NATIONAL TARGET IS ACHIEVED. THIS MEANS THAT THE GENERAL LEVEL OF SETTLEMENTS MUST BE WELL WITHIN SINGLE FIGURES."

4. THE CHANCELLOR RECOMMENDED THAT ALL NEW SETTLEMENTS LAST FOR 12 MONTHS IN BOTH THE PUBLIC AND PRIVATE SECTORS HE SAID IT WOULD BE POSSIBLE TO EASE ONLY THE MOST SERIOUS PAY ANOMALIES WHICH HAVE DEVELOPED OVER THE PAST TWO YEARS AND THEN ONLY ON A PHASED BASIS SO AS NOT TO RAISE THE OVERALL INCREASE IN AVERAGE EARNINGS ABOVE SINGLE FIGURES. FOR THE PUBLIC SECTOR, MR. HEALEY SAID THAT THERE WOULD BE NO CHANGES IN THE CASH LIMITS FOR THE CURRENT FISCAL YEAR WHILE THE 1978/79 CASH LIMITS WOULD REFLECT

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HMG'S POLICY ON PAY AFTER APRIL 1, 1978. IF THESE CASH
LIMITS WERE EXCEEDED, SPENDING AUTHORITIES WILL NOT BE
ABLE TO RELY ON SUPPLEMENTARY PROVISION OF FUNDS.

5. IN RETURN FOR SUPPORTING THE 12-MONTH RULE AND THE
SINGLE DIGIT PAY INCREASES NECESSARY TO ACHIEVE THE
LOWER RATE OF INFLATION, THE CHANCELLOR ANNOUNCED:

--AN EXTENSION OF THE PRESENT CONTROLS WHICH LIMIT THE
ANNUAL RISE IN DIVIDENDS TO 10 PERCENT FOR A FURTHER 12
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MONTHS;

--THE GOVERNMENT WILL DISCRIMINATE AGAINST FIRMS AGREEING TO EXCESSIVE PAY SETTLEMENTS IN ITS GRANTING OF INDUSTRIAL ASSISTANCE AND IN ITS PUBLIC PURCHASING POLICY.

--HMG'S INTENTION TO SEEK LEGISLATIVE AUTHORITY TO PREVENT FIRMS WHOSE PROFIT MARGINS ARE IN EXCESS OF THOSE ALLOWED UNDER THE PRICE CODE FROM GRANTING PAY INCREASES WITHIN 12 MONTHS OF THE END OF PHASE II.

6. IN ADDITION HEALEY PROPOSED A NUMBER OF FISCAL CHANGES "TO GIVE WORKING PEOPLE CONFIDENCE THAT THEIR LIVING STANDARDS CAN BE GENERALLY MAINTAINED BY MODERATE SETTLEMENTS AT 12-MONTH INTERVALS." HE NOTED THAT THESE CHANGES WERE MADE POSSIBLE BY THE IMPROVING BALANCE OF PAYMENTS. THEY INCLUDE :

--THERE WOULD BE NO ATTEMPT TO RECOUP LOST REVENUE FROM THE PETROLEUM TAX ROLLBACK SCHEDULED FOR AUGUST 8. COST IN FY77/78 -- 200 MILLION POUNDS.

--THE GENERAL MAGNITUDE (490 MILLION POUNDS), BUT NOT THE STRUCTURE OF THE CHANGES IN PERSONAL ALLOWANCES INTRODUCED AT THE COMMITTEE STAGE OF THE FINANCE BILL WILL BE MAINTAINED. THE SINGLE PERSON ALLOWANCE WOULD INCREASE 40 POUNDS OVER THE LEVEL PROPOSED IN THE BUDGET AND THE MARRIED PERSON ALLOWANCE BY 70 POUNDS.

--THE BASIC RATE OF INCOME TAX WILL BE REDUCED FROM 35 PERCENT TO 34 PERCENT, AT AN ESTIMATED COST OF 470 MILLION POUNDS.

--THE CHILD BENEFIT RATES WILL INCREASE IN 1978/79 SUBSTANTIALLY.

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TIALLY. AT A NET 1978/79 EXCHEQUER COST OF 300 MILLION POUNDS. THESE INCREASES WILL HOLD AS CHILD TAX ALLOWANCES ARE PHASED OUT.

--MILK SUBSIDIES WILL BE INCREASED AT A COST OF 110 MILLION POUNDS FOR THE CURRENT FINANCIAL YEAR.

--A SUBSIDY ON WINTER USE OF ELECTRICITY WILL CONTINUE.

--THE PROGRAM, ANNOUNCED LAST MONTH, TO PROMOTE YOUTH AND TEMPORARY EMPLOYMENT AT A COST OF 228 MILLION POUNDS BY FY78/79 WAS NOTED.

--THE GOVERNMENT WILL APPROVE AN ADDITIONAL 100 MILLION POUNDS OF CONSTRUCTION THIS FINANCIAL YEAR, AND WILL PROVIDE 70 MILLION POUNDS TO AID THE FERROUS FOUNDRY AND MACHINE TOOL INDUSTRIES OVER THE NEXT FEW YEARS.

7. MR. HEALEY ESTIMATED THAT THE MEASURES ANNOUNCED WOULD COST THE GOVERNMENT 1-1/4 BILLION POUNDS IN THE CURRENT FINANCIAL YEAR AND 1-1/2 BILLION NEXT YEAR, AND THAT IT WOULD BE A STIMULUS TO OUTPUT AND EMPLOYMENT. AT THE SAME TIME THE CHANCELLOR SAID THE PSBR WOULD NOT BE APPRECIABLY AFFECTED BY THE CHANGES, AND THE GOVERNMENT WOULD HOLD TO ITS CASH LIMITS, AND MONETARY EXPANSION TARGETS.

8. FOLLOWING THE CHANCELLOR'S PRESENTATION TORY SHADOW CHANCELLOR SIR GEOFFREY HOWE NOTED THAT THE CORNERSTONE OF HMG'S ECONOMIC STRATEGY HAD BEEN REMOVED WITH THE COLLAPSE OF INCOMES POLICY. HE WELCOMED MR. HEALEY'S PROMISE TO ADHERE TO THE IMF FINANCIAL TARGETS. THE REST OF SIR GEOFFREY'S REMARKS WERE DROWNED OUT IN A CHORUS OF HECKLING FROM THE LABOR BENCHES. IN THE ABSENCE OF LIBERAL LEADER DAVID STEEL, LIBERAL ECONOMIC SPOKESMAN JOHN PARDOE SAID HIS PARTY'S REACTION TO THE CHANCELLOR'S MESSAGE WOULD BE GIVEN NEXT WEDNESDAY. HE ASKED THE CHANCELLOR FOR A LIMITED OFFICIAL USE

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CELLOR WHAT FISCAL AND MONETARY MEASURES WOULD BE TAKEN IF THE RATE OF AVERAGE EARNINGS INCREASED SHARPLY OVER THE NEXT THREE MONTHS. PARDOE GAVE NO INDICATION THAT THE LIBERALS WERE CONSIDERING WITHDRAWAL OF THEIR SUPPORT

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IN WEDNESDAY'S CONFIDENCE VOTE.

9. COMMENT. THE ANNOUNCED INCOME TAX CHANGES IN EFFECT IMPLEMENT CONDITIONAL TAX CUTS OFFERED BY THE CHANCELLOR IN HIS MARCH 29 BUDGET MESSAGE. HOWEVER, RATHER THAN IMPLEMENTING THE PROMISED 2 PERCENTAGE POINT CUT IN THE BASIC 35 PERCENT RATE, THE CHANCELLOR HAS ACCEPTED THE AMENDMENTS ADDED TO THE FINANCE BILL AND REDUCED THE STANDARD TAX RATE BY ONLY 1 PERCENTAGE POINT. IN THE CURRENT FISCAL YEAR, THE INCREASES ON MILK AND SCHOOL MEAL
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SUBSIDIES, INCREASED SPENDING ON CONSTRUCTION INDUSTRY SCHEME AND YOUTH EMPLOYMENT WILL ALL BE FINANCED FROM THE EXISTING CONTINGENCY RESERVE.

10. THERE IS IN FACT NO SIGNIFICANT ADDITIONAL ECONOMIC STIMULUS IN TODAY'S I A ESO BEYOND THAT CONTAINED IN THE BUDGET. THE PROGRAM FOR FISCAL AND MONETARY RESTRAINT WAS DESIGNED AROUND A BUDGET INCLUDING THE CONDITIONAL TAX CUTS, AND TODAY'S MEASURES, IN A MACROECONOMIC SENSE, SIMPLY RELABEL THE INITIAL PRESENTATION. THE CHANCELLOR WAS UNABLE TO ACHIEVE HIS HOPED FOR SATISFACTORY PAY AGREEMENT AND SO HAS CARRIED THE ADJUSTMENTS OUT IN THE NAME OF PRODUCING AN ATMOSPHERE CONDUCTIVE TO MODERATE PAY SETTLEMENTS IN THE PRIVATE SECTOR.

11. FOR PUBLIC PAY SETTLEMENTS CONCLUDED BETWEEN AUGUST 1977 AND MARCH 31, 1978, HMG HAS OPENLY STATED THAT IT IS

NOT PREPARED TO FINANCE WAGE INCREASES IN EXCESS
OF THE 5 PERCENT NORM IMPLIED BY THE CURRENT CASH LIMITS.
BEYOND APRIL 1, 1978, THE CHANCELLOR STRONGLY
HINTED THAT THE CASH LIMITS WILL IMPLY A SINGLE DIGIT
WAGE NORM.

HMG HAS OPENLY COMMITTED ITSELF TO
SETTING A MODERATE EXAMPLE ON PAY SETTLEMENTS IN THE
COMING WAGE ROUND. THIS WILL BE FAR EASIER FOR CIVIL
SERVANTS THAN IT WILL BE FOR MINERS, STEEL WORKERS AND
OTHER NATIONALIZED INDUSTRY EMPLOYEES. CLEARLY HMG'S
RESOLVE WILL BE SEVERELY TESTED IN THE MONTHS TO COME.

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Message Attributes

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